

Report  
of the  
Examination of  
Wisconsin Auto and Truck Dealers Insurance Corporation  
Madison, Wisconsin  
As of December 31, 2002

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Jim Doyle, Governor*  
*Jorge Gomez, Commissioner*

*Wisconsin.gov*

September 25, 2003

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Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
125 S. Webster Street  
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

WISCONSIN AUTO AND TRUCK DEALERS INSURANCE CORPORATION  
Madison, WI

and this report is respectfully submitted.

## I. INTRODUCTION

This is the first examination of the company. The examination covered the period  
from the incorporation of the company, April 27, 2001, through December 31, 2002, and included  
a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's  
operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations  
accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Current Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## **II. HISTORY AND PLAN OF OPERATION**

Wisconsin Auto and Truck Dealers Insurance Corporation (WATDIC or the company) is licensed as a stock life insurance company under ch. 611, Wis. Stat. The company was incorporated on April 9, 2001, and commenced business on June 1, 2001. The company is controlled by its sole shareholder, Wisconsin Automobile and Truck Dealers Association, Inc., Insurance Trust (the Trust). The company was formed to provide health insurance to automobile and truck dealers licensed in Wisconsin who are eligible members of the Wisconsin Automobile and Truck Dealers Association, Inc. (the Association).

The majority of the current policyholders were previously covered by the Trust. The Trust, organized by the Association in 1948, was initially qualified as a Multiple Employer Welfare Association (MEWA) under Section 501(c)(9), Wis. Stat., of the Internal Revenue Code. The Association was the plan sponsor and the plan administrator for the employee benefit plan established by the Trust.

The Trust originally self-funded the health benefits it offered using a stop-loss policy from a licensed insurer. However, as a result of rulings by the US Department of Labor regarding such trusts, the Trust determined that as a MEWA it was not exempt from state insurance regulation.

In order to comply with Wisconsin insurance law, the Trust had to take one of the following actions: 1) liquidate, 2) become fully insured by a licensed insurer, or 3) organize as an insurance company. At the end of 1990, the Trust became fully insured through a licensed insurer and continued to provide health coverage for individuals previously covered under the Trust. In 2001, the Trust established Wisconsin Auto and Truck Dealers Insurance Corporation. The Office of the Commissioner of Insurance (OCI) issued a certificate of authority to the company on April 27, 2001.

The company currently writes only in the state of Wisconsin. The major products marketed by the company include group accident and health, dental, short-term disability, and short-term life insurance. The major products are marketed by two licensed agents who are field representatives employed by the Association.

There are 2,969 certificate holders and 6,828 total lives in the company's group health plan. There are 1,295 certificate holders and 3,137 total lives in the company's group dental plan. The average group size of dealers in the health and dental plans is less than 50 employees.

The term life and disability plans are optional coverages. Most employers insured by the group health plan also participate in the term life and disability coverages.

The following chart is a summary of the net insurance premiums collected by the company in 2002. The company does not assume any reinsurance. The growth of the company is discussed in the "Financial Data" section of this report.

<b>Line of Business</b>	<b>Premium Collected</b>		<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Medical - PPO Plan	\$18,090,057	94%	\$661,551	\$17,428,506
Dental	798,384	4	0	798,384
Short-term disability	247,004	1	0	247,004
Short-term life	<u>193,511</u>	<u>1</u>	<u>0</u>	<u>193,511</u>
Total	<u>\$19,328,956</u>	<u>100%</u>	<u>\$661,551</u>	<u>\$18,667,405</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members. Members of the company's board of directors are also trustees of the Trust. Two directors are elected annually to serve a three-year term. The company's bylaws require that the President of the Association automatically be named the remaining board member.

The board members currently receive no compensation for serving on the board, but receive expense reimbursements for mileage and travel expenses to attend meetings.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Robert E. Moody River Falls, WI	Auto Dealer	2005
Donald L. Larson Baraboo, WI	Auto Dealer	2004
Ronald J. Boldt Platteville, WI	Auto Dealer	2005
James A. Lecher Menomonie Falls, WI	Auto Dealer	2003
David R. Brantmeier Chilton, WI	Auto Dealer	2004
Gary D. Williams Madison, WI	President of the Association	N/A*
Richard J. Kornely Manitowoc, WI	Auto Dealer	2003

*\*See explanation provided above.*

### **Officers of the Company**

Officers are appointed by the board of directors. The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2002 Compensation</b>
Lee Bauman	President	\$ 104,193
Robert J. Foulks	Treasurer	31,742
Gary D. Williams	Secretary	22,483

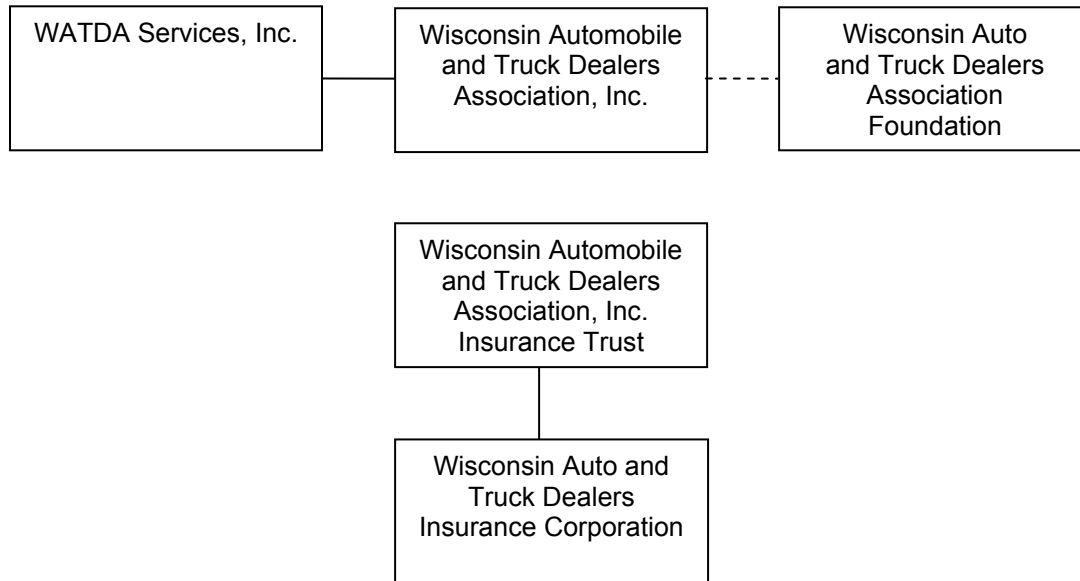
Officers are compensated by the Association. The compensation reported above is based on the time allocated to the company through the services agreement with the Association. This agreement is further discussed in the "Affiliated Companies" section of this report.



#### IV. AFFILIATED COMPANIES

WATDIC is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates of WATDIC follows the organizational chart.

**Organizational Chart  
As of December 31, 2002**



**Wisconsin Automobile and Truck Dealers Association, Inc. (the Association)**

The Association is a not-for-profit membership organization of automobile and truck dealers in the State of Wisconsin. As such, the Association is directed towards promoting the interests of its auto and truck dealer members.

The Association provides administration and management services for WATDIC through an administrative service agreement, rather than a direct affiliation between the entities. The expense allocation for services was \$1,177,202 and \$632,222 for the periods ended December 31, 2002 and 2001, respectively.

**Wisconsin Automobile and Truck Dealers Association, Inc. Insurance Trust (the Trust)**

The Trust, formed by the Association, is the sole shareholder of WATDIC. The Trust markets and administers term life, dependant life, and personal accident insurance coverage to

eligible Association members. All policies marketed by the Trust are fully insured by a nonaffiliated licensed insurer. The Trust also performs premium collection services for WATDIC. These services are further discussed in the “Affiliated Agreements” section of this report. As of December 31, 2002 and 2001, WATDIC reported a receivable of \$469,144 and \$3,159,848, respectively, from the Trust for premiums collected and not yet remitted. The receivable is further discussed in the “Accident and Health Premiums Due and Unpaid” section of this report.

As of December 31, 2002, the consolidated audited financial statement for the Trust and WATDIC reported assets of \$12,441,118, liabilities of \$5,636,162, and net assets of \$6,804,956. Operations for year ended December 31, 2002, resulted in an increase of net assets of \$694,266.

#### **WATDA Services, Inc.**

WATDA Services, Inc., a wholly owned subsidiary of the Association, is engaged in the sale and distribution of forms to auto and truck dealers in Wisconsin and also administers cafeteria plans for the members of the Association and other employers.

#### **Wisconsin Auto & Truck Dealers Association Foundation (the Foundation)**

Wisconsin Auto & Truck Dealers Association Foundation is a Section 501(c)(3), organization of the Internal Revenue Code that is sponsored by the Association. The Foundation was incorporated and commenced business in 1991 to provide scholarships to students in automotive technical programs and other support to youth education. They also provide grants to other non-profit organizations.

## **V. REINSURANCE**

The company had one reinsurance treaty in force at the time of examination, which is summarized below. The contract contained a proper insolvency provision and properly transferred risk.

### **Nonaffiliated Ceding Contract**

Type:	Medical Excess of Loss
Reinsurer:	Allianz Life Insurance Company of North America
Scope:	Fully insured group medical insurance policies and certificates excluding medical conversion policies
Retention:	\$150,000 per covered person per contract year
Coverage:	100% in excess of retention, subject to a maximum lifetime limit of \$2,000,000 per covered person
Premium:	\$21.40 per individual per month
Commission:	None
Effective date:	June 1, 2003
Termination:	May 31, 2004

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC, Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted in the "Reconciliation of Surplus per Examination" section of this report.

**Wisconsin Auto and Truck Dealers Insurance Corporation**  
**Assets**  
**As of December 31, 2002**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$3,973,648		\$ 3,973,648
Stocks:			
Preferred stocks	202,246		202,246
Common stocks	1,095,384		1,095,384
Cash	2,564,075		2,564,075
Short-term investments	427,129		427,129
Reinsurance ceded:			
Amounts recoverable from reinsurers	6,444		6,444
Accident and health premiums due and unpaid	469,144		469,144
Investment income due and accrued	28,957		28,957
Receivable from parent, subsidiaries and affiliates	48,912		48,912
Write-ins for other than invested assets:			
Miscellaneous receivable	2,837		2,837
Prepaid insurance	11,485	\$11,485	
Prepaid expenses	<u>24,500</u>	<u>24,500</u>	<u>          </u>
Total Assets	<u><u>\$8,854,761</u></u>	<u><u>\$35,985</u></u>	<u><u>\$8,818,776</u></u>

**Wisconsin Auto and Truck Dealers Insurance Corporation**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2002**

Aggregate reserve for accident and health contracts	\$2,050,500	
Contract claims:		
Life	8,100	
Accident and health	695,700	
Contract liabilities not included elsewhere:		
Interest maintenance reserve	119,477	
General expenses due or accrued	320,334	
Taxes, licenses, and fees due or accrued, excluding federal income taxes	19,000	
Federal and foreign income taxes	164,000	
Amounts withheld or retained by company as agent or trustee	1,623	
Miscellaneous liabilities:		
Asset valuation reserve	64,326	
Write-ins for liabilities:		
Reinsurance Payable	<u>60,435</u>	
 Total Liabilities		 \$3,503,495
 Common capital stock	 90	
Gross paid in and contributed surplus	5,006,444	
Unassigned funds (surplus)	<u>308,746</u>	
 Total Capital and Surplus		 <u>5,315,280</u>
 Total Liabilities, Capital and Surplus		 <u>\$8,818,775</u>

**Wisconsin Auto and Truck Dealers Insurance Corporation**  
**Summary of Operations**  
**For the Year 2002**

Premiums and annuity considerations for life and accident and health contracts	\$17,494,624	
Net investment income	143,023	
Amortization of interest maintenance reserve	<u>7,840</u>	
Total income items		\$17,645,487
Death benefits	40,960	
Disability benefits and benefits under accident and health contracts	14,049,287	
Increase in aggregate reserves for life and accident and health contracts	<u>(8,514)</u>	
Subtotal	14,081,733	
General insurance expenses	1,861,272	
Insurance taxes, licenses, and fees excluding federal income taxes	<u>147,288</u>	
Total deductions		<u>16,090,293</u>
Net gain from operations after dividends to policyholders and before federal income taxes		<u>1,555,194</u>
Federal income taxes incurred (excluding tax on capital gains)		<u>447,000</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		1,108,194
Net realized capital gains or (losses) less capital gains tax		<u>(25,709)</u>
Net Income (Loss)		<u>\$ 1,082,485</u>

**Wisconsin Auto and Truck Dealers Insurance Corporation**  
**Cash Flow**  
**As of December 31, 2002**

Premiums and annuity considerations for life and accident and health contracts		\$ 18,656,924	
Net investment income		<u>186,227</u>	
Total			\$18,843,151
Death benefits	\$ 40,000		
Disability benefits and benefits under accident and health contracts	13,980,882		
General insurance expenses	1,712,370		
Insurance taxes, licenses and fees, excluding federal income taxes	<u>128,288</u>		
Subtotal		15,861,540	
Federal income taxes (excluding tax on capital gains)		<u>300,000</u>	
Total deductions			<u>16,161,540</u>
Net cash from operations			2,681,611
Proceeds from investments sold, matured, or repaid:			
Bonds	5,332,483		
Stocks	<u>5,432,172</u>		
Total		10,764,655	
Less: Cost of investments acquired (long-term only):			
Bonds	6,082,860		
Stocks	<u>4,788,534</u>		
Total investments acquired		<u>10,871,394</u>	
Net cash from investments			(106,739)
Cash applied for financing and miscellaneous uses:			
Other applications	<u>120,432</u>		
Total		<u>120,432</u>	
Net cash from financing and miscellaneous sources			<u>(120,432)</u>
Net change in cash and short-term investments			2,454,440
<b>Reconciliation</b>			
Cash and short-term investments, December 31, 2001			<u>536,763</u>
Cash and short-term investments, December 31, 2002			<u>\$ 2,991,203</u>



**Wisconsin Auto and Truck Dealers Insurance Corporation  
Compulsory and Security Surplus Calculation  
December 31, 2002**

Assets		\$ 8,818,775	
Less investments exceeding WI limitations		1,749,949	
Less liabilities		<u>3,503,495</u>	
Adjusted surplus			\$3,565,331
Annual premium:			
Individual life and health	\$ 247,362		
Factor	<u>15%</u>		
Total		37,104	
Group life and health	\$ 16,357,810		
Factor	<u>10%</u>		
Total		1,635,781	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,000,000</u>
Compulsory surplus excess or (deficit)			<u>\$1,565,331</u>
Adjusted surplus			\$3,565,331
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>2,800,000</u>
Security surplus excess or (deficit)			<u>\$ 765,331</u>

Certain investment restrictions are imposed on new insurers during the first five years after obtaining a certificate of authority, pursuant to s. 620.03, Wis. Stat. In general, a new insurer may only invest in bonds with an NAIC designation of "1." These investment restrictions permit investments in preferred stock only if the preferred stock meets certain criteria. Investments in common stock and mutual funds must be in accordance with a plan of acquisition proposed by the insurer and approved by the commissioner. All investments of a single issuer, except for certain government-issued bonds, are limited to 3% of assets for the purpose of calculating compulsory and security surplus. For the purpose of this calculation, WATDIC's assets were reduced by the amount of bonds, preferred stock, common stock, and mutual funds that were not in compliance with statutory investment restrictions for new insurers; however, the company is still above the required levels of compulsory surplus after the reduction is made.

**Wisconsin Auto and Truck Dealers Insurance Corporation**  
**Reconciliation and Analysis of Surplus**  
**For the Two-Year Period Ending December 31, 2002**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2002</b>	<b>2001</b>
Capital and surplus, beginning of year	\$4,471,214	\$ 0
Net income	1,082,486	(543,164)
Change in net unrealized capital gains or (losses)	(221,334)	71,070
Change in net deferred income tax	(186,000)	206,000
Change in non-admitted assets and related items	(7,210)	(28,775)
Change in asset valuation reserve	176,124	(240,451)
Capital Changes:		
Paid in common stock		90
Paid in surplus	<u>                    </u>	<u>5,006,444</u>
Capital and surplus, end of year	<u>\$5,315,280</u>	<u>\$4,471,214</u>

*Note: Amounts reported in 2001 represent only seven months of activity.*

**Wisconsin Auto and Truck Dealers Insurance Corporation**  
**Insurance Regulatory Information System**  
**For the Two-Year Period Ending December 31, 2002**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. A discussion of the exceptional ratios may be found after the IRIS ratios.

	<b>Ratio</b>	<b>2002</b>	<b>2001</b>
#1	Net change in capital & surplus	19.0%	999.0%*
#2	Gross change capital & surplus	19.0	999.0*
#3	Net income to total income	6.0	-6.0*
#5	Adequacy of investment income	NR	NR
#6	Non-admitted to admitted assets	0.0	0.0
#7	Total real estate & mortgage loans to cash & invested assets	0.0	0.0
#8	Total affiliated investments to capital & surplus	1.0	0.0
#9	Surplus relief	0.0	0.0
#10	Change in premium	41.0	999.0*
#11	Change in product mix	0.1	NR
#12	Change in asset mix	4.2	U*
#13	Change in reserving ratio	0.0	0.0

\* - Indicates an unusual value.

U - Indicates result is automatically considered unusual.

NR - Indicates no result is calculated.

Several IRIS ratios are calculated using prior year data. The company commenced business during 2001; therefore, it had no prior year data creating exceptional results for ratios #1, 2, 10, 11 and 12. Ratio #4 is not included above as it is no longer used.

Ratio #3 calculates the ratio of net income to total income (a figure that includes total premium and investment income, as well as realized capital gains). A negative result is considered exceptional. The company's exceptional result in 2001 was due to the net loss for that year, resulting from a loss ratio of 95% in group accident and health, its major line of business, and 151% in disability insurance. It should be noted that the company reported a 23% reserve redundancy for group accident and health in 2002.

Ratio #5, Adequacy of Investment Income, measures whether the company's investment income is adequate to meet the interest requirements of its reserves. A result above 900% or below 125% is considered exceptional. The company's result of 999% for 2001 and 2002 was considered exceptional. This ratio is an indicator for insurers writing life insurance products and is not relevant to the company.

**Growth of Wisconsin Auto and Truck Dealers Insurance Corporation**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus</b>
2002	\$8,818,775	\$3,503,495	\$5,315,280
2001	9,306,480	4,835,266	4,471,214

**Life Insurance in Force (in thousands)**

<b>Year</b>	<b>Gross Direct</b>	<b>Ceded</b>	<b>Net</b>
2002	\$25,979	\$0	\$25,979
2001	29,342	0	29,342

**Accident and Health**

<b>Year</b>	<b>Net Premiums Earned</b>	<b>Net Losses Incurred</b>	<b>Commissions Incurred</b>	<b>Other Expenses Incurred</b>	<b>Combined Loss and Expense Ratio</b>
2002	\$17,307,813	\$14,040,774	\$0	\$1,912,118	92.1%
2001	9,315,752	8,983,205	0	1,070,125	107.9

*Note: Amounts reported in 2001 represent only seven months of activity.*

### Reconciliation of Surplus per Examination

There were no adjustments to surplus as a result of the examination. The following reclassifications were made as a result of the examination:

	<b>Debit</b>	<b>Credit</b>
Receivable from Parents, Subsidiaries and Affiliates	\$1,495,391	
Premiums and Annuity Considerations for Life and Accident and Health Policies Received in Advance		\$1,495,391
General Expenses Due or Accrued	60,236	
Aggregate Write-ins for Liabilities- Reinsurance Payable		60,236
Aggregate Reserves for Accident and Health Contracts	2,050,500	
Accident and Health Contract Claim Reserves	<u>2,050,500</u>	<u>2,050,500</u>
Total Reclassifications	<u>\$3,606,127</u>	<u>\$3,606,127</u>

Further discussion of these reclassifications is included in the "Summary of Current Examination Results" section of this report.

## **VII. SUMMARY OF EXAMINATION RESULTS**

### **Compliance with Prior Examination Report Recommendations**

This is the first examination report on the company. Consequently, there are no prior examination recommendations to report on.

## **Summary of Current Examination Results**

### **Corporate Governance**

The examination found that the bylaws obtained from company did not match the bylaws filed with OCI. The bylaws that were filed with OCI by the company in the initial application appear to have been a draft version, and differ from the bylaws actually adopted. No changes have been made to the Articles or the bylaws subsequent to their adoption by the Board of Directors on June 21, 2001. It is recommended that the company file a complete and final version of the bylaws with the commissioner and any amendments thereto within 60 days after adoption of this examination report to comply with s. 11.12 (4), Wis. Stat.

### **Affiliated Agreements**

The Trust performs premium collection services for the company. The examination noted that there is no agreement between the Trust and the company for these premium collection services. It is recommended that the company enter into a formal written agreement with the Trust for services rendered identifying the rights and responsibilities of both parties.

### **Conflict of Interest Questionnaire**

Pursuant to a directive of the Commissioner of Insurance, insurers are required to have officers, directors, and key employees disclose potential conflicts of interest to the Board of Directors. The company has not implemented a procedure, which requires officers, directors, and key employees to annually disclose potential conflicts of interest. It is recommended that the company establish a procedure that requires each of its directors, officers, and key employees to annually disclose conflict of interests to the board of directors through a questionnaire, and that the disclosures are retained in compliance with the directive of the Commissioner of Insurance.

### **Listing of Agents**

During review of OCI's agent database, it was noted that there were no records of licensed agents listed for the company, a violation of s. 628.11, Wis. Stat., which requires that an insurer report to the commissioner all appointments, renewals of appointments, and all termination of appointments of insurance agents. Currently, two licensed agents employed by the Association are marketing business for the company. These individuals should be reported



to the Commissioner of Insurance as listed agents. It is recommended that the company report to the Commissioner of Insurance all appointments and terminations of insurance agents in compliance with s. 628.11, Wis. Stat.

### **Agent Commissions**

The company's annual statement did not report any agent commission expense. The company included agent commission in General Expenses as Salary and Wages. NAIC Annual Statement Instructions require agent commissions be excluded from salary and wages, and should be reported in the Summary of Operations as Commissions on Premiums, Annuity Considerations, and Deposit Type Funds. It is recommended the company report agent commissions in accordance with the NAIC Annual Statement Instructions.

### **Policy Files**

The examination's review of the policy files noted that the company did not always have signed written applications in the file. It is recommended that the company obtain a signed application with each of its groups.

### **Control Environment**

It was noted that company personnel responsible for processing life claims and personnel responsible for processing disability claims are also responsible for producing manual checks for these accounts. These personnel also have access to the management's signature with a stamp signer. Having the same individual responsible for these incompatible functions creates a weakness in the company's cash disbursement internal control environment. It is recommended that the company have proper segregation of duties for the life and disability claims process.

### **Investment Restrictions**

As discussed in the "Financial Data" section of this report under subheading "Compulsory and Security Surplus Calculation", certain investment restrictions are imposed on new insurers during the first five years after obtaining a certificate of authority. The company did not exclude from the calculation of compulsory and security surplus, bonds, and preferred stock that did not meet the criteria outlined in s. Ins 6.20 (5) (a) and (d), Wis. Adm. Code. In addition,

the company has not proposed a plan for investments in common stock and mutual funds, which are restricted for the first five years; therefore, all common stock and mutual fund investments have been excluded. It is recommended that company compute compulsory and security surplus according to s. 620.03, Wis. Stat., and s. Ins 6.20 (5), Wis. Adm. Code. It is further recommended that the company comply with the special investment restrictions for new insurers, pursuant to s. 620.03, Wis. Stat., and s. Ins 6.20 (5), Wis. Adm. Code.

### **Bonds**

The examination was able to obtain outside confirmations for all bonds listed in Schedule D of the annual statement. However, the examination was unable to review purchase invoices for each bond. Purchase invoices provide a necessary audit trail for the valuation and existence of bonds.

The examination also noted the following errors during the review of in Schedule D, Part 1 of the Annual Statement:

1. The company did not complete the column headed "How Paid" for some bonds.
2. The company reported that one bond was acquired in 2017.
3. The company did not report effective rates for any of the bonds listed.

It is recommended that the company maintain purchase invoices and properly report its investments on Schedule D according to the NAIC Annual Statement Instructions.

### **Accident and Health Premiums Due and Unpaid**

The Trust collects premium for the company. The balance reported in the Accident and Health Premiums Due and Unpaid line of the annual statement included amounts paid to the Trust by the policyholder, but not yet remitted to the company. Those amounts should be included as Receivables from Parent, Subsidiaries or Affiliates. It is recommended that the company exclude premium paid to the Trust from Accident and Health Premiums Due and Unpaid. A reclassification to Receivable from Parent, Subsidiaries, and Affiliates was not made by the examination due to the lack of supporting data.

### **Premiums and Annuity Considerations for Life and Health Contracts Received in Advance**

The Trust collects premium for the company. It was noted that the Trust collected \$1,495,391 in premiums for policies prior to the premium due date. These premiums represent

an obligation of the company and should be included in its financial statements. Recording the premium should result in an increase to both Receivable from Parent, Affiliates, Subsidiaries, Premiums and Annuity Considerations for Life and Health Contracts Received in Advance. It is recommended that the company record advance premiums collected from policyholders by the Trust in its financial statements. A reclassification has been reflected under the "Reconciliation of Surplus Per Examination" section of this report.

### **Reinsurance Payable**

The examination found that at year end 2002, the company had reinsurance payable of \$120,671.00. This represents premium sessions for the months of November and December of 2002. The company reflected the \$60,236 November 2002 reinsurance payable as a General Expense Due and Accrued and reflected the \$60,435 December 2002 reinsurance payable as a write-in liability titled Reinsurance Payable. Statements of Statutory Accounting Principles (SSAP) 61, paragraph (25) requires that an insurer establish a liability for those premiums collected and due under a reinsurance agreement, but not yet remitted to the reinsurer. The entire amount of \$120,671 should have been included in the write-in liability. It is recommended that the company accurately report amounts payable to reinsurers. A reclassification has been included in the "Reconciliation of Surplus Per Examination" section of this report.

### **Contract Claim Reserves**

Per discussion with the company's consulting actuary, a total claim liability is first determined, and then is allocated on Exhibit 6 and Exhibit 8 based on the following assumptions: Present Value of Amounts Not Yet Due (75%), Due and Unpaid (12.5%), and In Course of Settlement (12.5%). The block of business has been written through the Association for an adequate length of time to allow for an allocation of reserves based on the company's data. To accurately report accident and health claim reserves, the company should be using its own data and historical experience to determine claim reserve amounts for the annual statement line items noted above. It is recommended that the company use its historical experience to apportion its accident and health claim reserves rather than using assumptions.

The company reported \$2,050,500 in Aggregate Reserve for Accident and Health Contracts. This amount represented the company's estimate of claims which were incurred but unreported. NAIC Annual Statement Instructions indicate that a reserve for incurred, but unreported claims should be included as Accident and Health Contract Claims. The claim reserve section of aggregate reserves reports unaccrued claims such as future disability payments that are not yet due. The company may have a small amount of future short term disability payments that may be appropriate as an Aggregate Reserve reported in Exhibit 6, but the majority of the estimated reserve is incurred, but unreported Accident and Health Contract Claims reported in Exhibit 8. It is recommended the company report estimates for accident and health claims incurred, but unreported in Exhibit 8. A reclassification has been reflected under the "Reconciliation of Surplus Per Examination" section of this report.

#### **IT Environment**

In general, WATDIC's Information Technology control environment appears to adequately secure the company's data. However, the company's computer server is located where logical and physical access is not limited to authorized employees. It is recommended that the company secure physical access to its computer.

## **VIII. CONCLUSION**

Wisconsin Auto and Truck Dealers Insurance Corporation is a Wisconsin domiciled stock life and health insurer. It was organized in 2001. The company is a wholly owned subsidiary of Wisconsin Automobile and Truck Dealers Association, Inc., Insurance Trust.

The examination determined that as of December 31, 2002, the company had total admitted assets of \$10,314,167, total liabilities of \$4,998,886, and policyholders' surplus of \$5,315,280. The examination made several recommendations related to completion of the annual statement and other accounting matters. The examination did not make any adjustments to reported surplus.

Policyholders' surplus has increased 18.9%, from \$4,471,214 on December 31, 2001, to \$5,315,280 as of December 31, 2002. The increase in surplus is primarily due to favorable results in its group accident and health line of business.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Corporate Governance— It is recommended that the company file a complete and final version of the bylaws with the commissioner and any amendments thereto within 60 days after adoption of this examination report to comply with s. 611.12 (4), Wis. Stat.
2. Page 22 - Affiliated Agreements— It is recommended that the company enter into a formal written agreement with the Trust for services rendered identifying the rights and responsibilities of both parties.
3. Page 22 - Conflict of Interest Questionnaire— It is recommended that the company establish a procedure that requires each of its directors, officers, and key employees to annually disclose conflict of interests to the board of directors through a questionnaire, and that the disclosures be retained in compliance with the directive of the Commissioner of Insurance.
4. Page 23 - Listing of Agents— It is recommended that company report to the commissioner all appointments and terminations of insurance agents in compliance with s. 628.11, Wis. Stat.
5. Page 23 - Agent Commissions— It is recommended company report agent commissions in accordance with the NAIC Annual Statement Instructions.
6. Page 23 - Policy Files— It is recommended that the company obtain a signed application with each of its groups.
7. Page 23 - Control Environment— It is recommended that the company have proper segregation of duties for the life and disability claims process.
8. Page 24 - Investment Restrictions— It is recommended that company compute compulsory and security surplus according to s. 620.03, Wis. Stat., and s. Ins 6.20 (5), Wis. Adm. Code.
9. Page 24 - Investment Restrictions— It is further recommended that the company comply with the special investment restrictions for new insurers, pursuant to s. 620.03, Wis. Stat., and s. Ins 6.20 (5), Wis. Adm. Code.
10. Page 24 - Bonds— It is recommended that the company maintain purchase invoices and properly report its investments on Schedule D according to the NAIC Annual Statement Instructions.
11. Page 24 - Accident and Health Premiums Due and Unpaid— It is recommended that the company exclude premiums paid to the Trust from Accident and Health Premiums Due and Unpaid.
12. Page 25 - Premiums and Annuity Considerations for Life and Health Contracts Received in Advance— It is recommended that the company record advance premiums collected from policyholders by the Trust in its financial statements.
13. Page 25 - Reinsurance Payable— It is recommended that the company accurately report amounts payable to reinsurers.

14. Page 25 - Contract Claim Reserve— It is recommended that the company use its historical experience to apportion its accident and health claim reserves rather than using assumptions.
15. Page 26 Contract Claim Reserve— It is recommended the company report estimates for accident and health claims incurred, but unreported in Exhibit 8.
16. Page 26 - IT Environment— It is recommended that the company secure physical access to its computer.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Rick Anderson	Insurance Financial Examiner
Cruz Flores	Insurance Financial Examiner - Advanced
Jerry DeArmond	Insurance Financial Examiner - Advanced

Respectfully submitted,

Rebecca Easland  
Examiner-in-Charge